# Strategy, Value Chains and Competitive Advantage

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**Business Process Reengineering**

## Outline

- In this Chapter
  - We will discuss organization goals and strategies and how they can be tied to processes and to competitive advantage.

# Defining a Strategy

- Harvard Professor Michael Porter wrote the bestselling strategy book for the business community
- Porter defines strategy as:

  "a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out these goals."



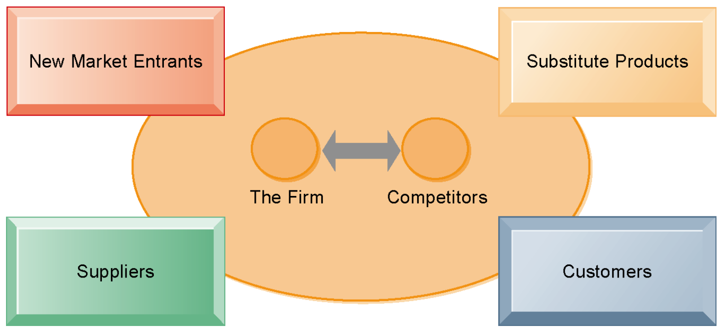
# Porter's Steps in Defining a Strategy

**1. What is the company doing now?**
- 1.1 Identify current strategy
- 1.2 Identify assumptions

**2. What is happening in the environment?**
- 2.1 Identify key factors for success and failure in the industry
- 2.2 Identify capabilities and limitations of competitors
- 2.3 Identify likely government and societal changes
- 2.4 Identify company's strengths and weaknesses relative to competitors

**3. What should the company do next?**
- 3.1 Compare present strategy to environmental situation
- 3.2 Identify alternative courses of action
- 3.3 Choose best alternative

## Porter's Competitive Forces Model






## Competitive Advantage

- According to Porter, an organization has a competitive advantage when it can make more profits selling its products or services than its competitors
- Profit can be seen as total revenue minus total costs
- Therefore, an organization can increase its profit by either:
  1. increasing revenue for the same total cost expenditure, or
  2. reducing total cost expenditure while achieving the same revenue
- How can these be achieved?

# Strategies for Competing

- **Cost leadership**

  This involves offering the product or service at the cheapest price. It can be accomplished by relying on economies of scale, controlling the supply chain, or increasing efficiency.

  **Can you think of an example?**

- **Differentiation**

  This involves providing better or more desirable products and services. This enables the organization to obtain a higher price for the item. It can be accomplished by using more expensive materials, a unique design, or superior craftsmanship.

  **What are other ways to differentiate your organization?**

  **Can you think of an example?**

- **Niche specialization**

  This involves focusing the marketing effort on specific buyers, specific market segments, or particular geographies. It can also involve offering only a subset of the industry's products or services.

  **Can you think of an example?**



# one way strategists think of positioning and specialization

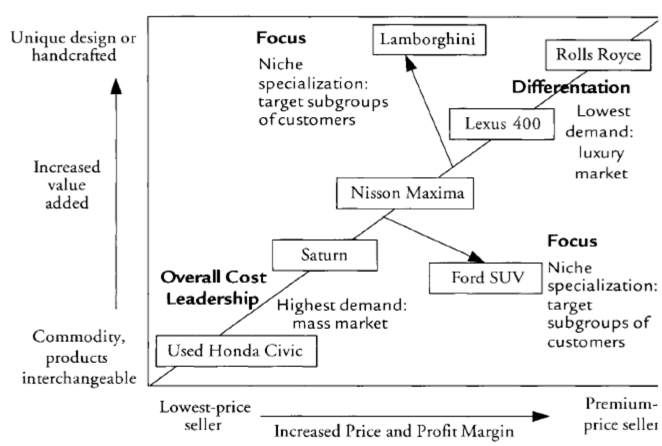



**Figure 2.3** Some considerations in positioning a company or product.

## Value Chain

- Porter suggested that company managers should conceptualize large-scale processes, which he termed *value chains, as entities that include* every activity involved in adding value to a product or service sold by the company
- *Value:* value that a customer perceives and is willing to pay for
- value proposition: a product or service that the customer is willing to pay for
  - Value-added Activities
  - Value-enabling activities
  - Non-value-added activities



## Key Concepts

- *A strategy depends on defining a company position that the company can use to* maintain a competitive advantage.
- A *position simply describes the goals of the company* and how it explains those goals to its customers.
- *A competitive advantage occurs when your company can make more profits selling* its product or service than its competitors can.
- A company with a competitive advantage is not necessarily the largest company in its industry, but it makes its customers happy by selling a desirable product, and it makes its shareholders happy by producing excellent profits.

## Best Practice vs. Positioning

- In the 1990s, many companies abandoned strategic positioning and focused almost entirely on operational effectiveness
- focusing on *best practices: The assumption seems to be that a company can be successful if all of* its practices are as good as, or better than, its competitors
  - Outsourcing
- Porter: operational effectiveness can't be sustained
  - "hyper-competition,‟ running faster and faster to improve their operations.
  - Being Exhausted and shrunk profit margin

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## Porter's Discussion on Competitive Advantage

- competitive advantage is sustained by the processes and activities of the company.
- *Fit:* the way in which processes and activities work together and reinforce one another
- Companies that create and sustain competitive advantage do it because they have the discipline to choose a strategic position and then remain focused on it.
- Refining their business processes and the fit of their activities so that their efficiencies are very hard for competitors to duplicate
- Process integration or fit provides
  - the basis for long-term competitive advantage
  - better margins without the need for knee-jerk efforts to copy the best practices of rivals

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# Identifying How to Achieve the Strategy

- Once the strategy and competitive advantage are identified, the next step is to establish a plan for achieving the strategy
- The first step is to understand some of the key activities in the organization that impact the components of the strategy
- Porter developed additional tools to help organizations identify the key **activities** in the organization that help to achieve the strategy, and how these work together as part of a **system**
  - He called this a "Strategic Activity-System Map"
- The Strategic Activity-System Map documents the strategic themes (in the squares), and the activities that achieve those strategies (in the circles)
- An example developed by executives at Southwest Airlines in the early 1990s is shown on the next slide

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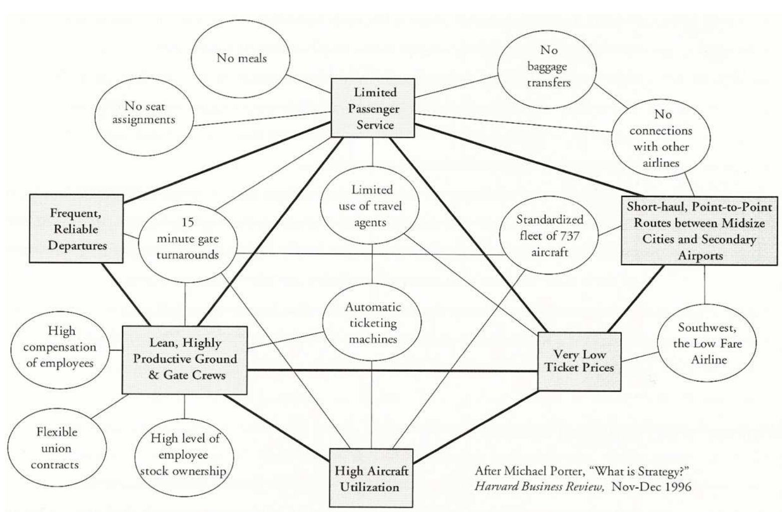
# Strategic Activity-System Map: Example for Southwest Airlines




Harmon, P. (2007). *Business Process Change: A Guide for Business Managers and BPM and Six Sigma Professionals.* Burlington, MA: Morgan Kaufmann Publishers. pp. 46.

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## Treacy and Wiersema's Positioning Strategies I

- Extending Porter's ideas on generic strategies by focusing on customers and company cultures.
- there are three generic types of customers:
  1)those whose primary value is high-performance products or services,
  2) those whose primary value is personalized service, and
  3) those who most value the lowest-priced product.
- “no company can succeed today by trying to be all things to all people. It must instead find the unique value that it alone can deliver to a chosen market.‟



## Treacy and Wiersema's Positioning Strategies II

- The three value positions that companies must choose between are
  - *Product Leadership. These companies focus on innovation and performance leadership.*
    - They strive to turn new technologies into breakthrough products and focus on product lifecycle management.
  - *Customer Intimacy. These companies focus on specialized, personal service.*
    - *They* strive to become partners with their customers.
    - They focus on customer relationship management.
  - *Operational Excellence. These companies focus on having efficient operations in* order to deliver the lowest-priced product or service to their customers.
    - They focus on their supply chain and distribution systems in order to reduce the costs of their products or services.

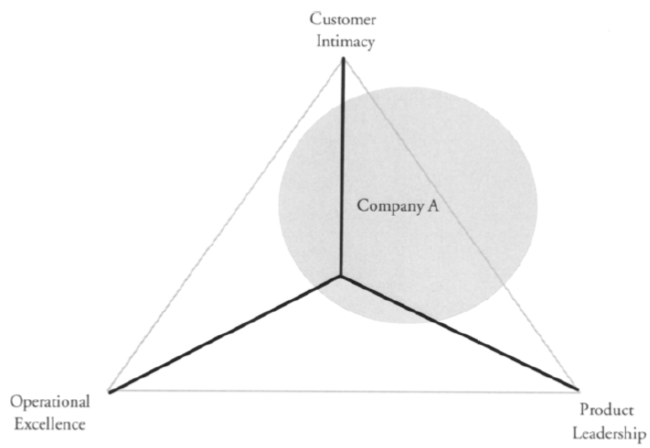



**Figure 2.5** Treacy and Wiersema's three positioning strategies.



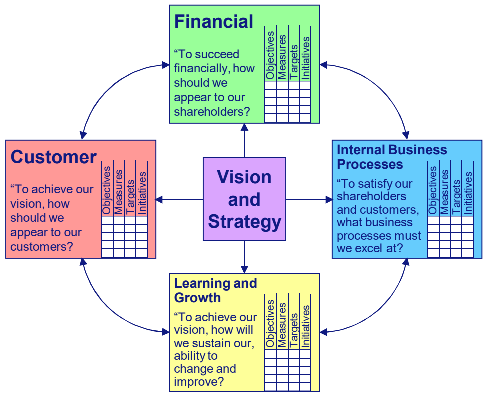
## Understanding the Balanced Scorecard (BSC)

- It is a management system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results
- Originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance
- The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system
- The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis

www.balancedscorecard.org website, accessed 12 April 2010.

# BSC Aligns Strategy and Processes

The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, and are therefore inadequate, alone, for guiding and evaluating the journey that today's companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.




Kaplan, R.S. and Norton, D.P., "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review*, January-February 1996.



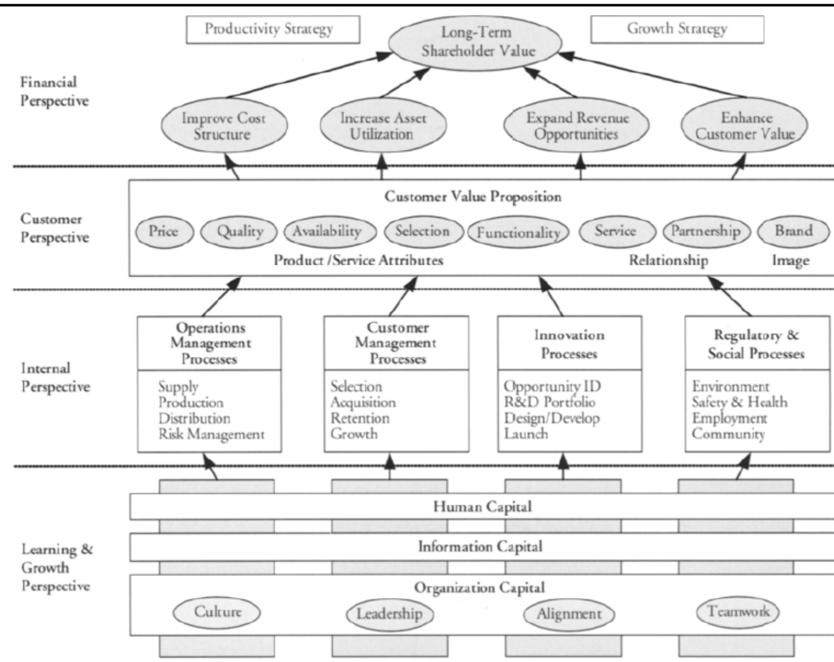



**Figure 2.6** The Balanced Scorecard approach to strategy. (After Kaplan and Norton.)

# Questions?